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S E C R E T SECTION 01 OF 05 TEL AVIV 000554

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TAGS: [PREL](#) [KNNP](#) [MNUC](#) [PTER](#) [IR](#) [RU](#) [IS](#)
SUBJECT: IRAN: UNDER SECRETARY JOSEPH'S DISCUSSIONS WITH
ISRAELI GOVERNMENT OFFICIALS AT THE MFA (CABLE 1 OF 4)

REF: TEL AVIV 00553

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Classified By: Ambassador Richard H. Jones. Reasons: 1.4 (b)(d).

SUMMARY

¶1. (S) During his January 30 - February 2 visit to Israel, Under Secretary Robert Joseph participated in talks with Israeli representatives from the MFA, MOD, Israeli Atomic Energy Commission (IAEC) and affiliated research centers, IDF intelligence (IDI), and the Mossad. Discussions focused on the threats posed to Israel and the international community by Iran, North Korea, Syria, and terrorist groups operating in Lebanon and the region. Under Secretary Joseph was accompanied by Assistant Secretary John Rood, DOE/NNSA Deputy Administrator William Tobey, and T Senior Advisor James Timbie.

¶2. (S) This cable, the first of four cables on Iran from a three-hour interagency meeting at the MFA, focuses on discussions about the current internal situation in Iran. The main points the Under Secretary's Israeli interlocutors made are as follows:

¶A. Since January, there has been a marked increase in criticism of Iranian President Ahmadinejad's economic and nuclear policies. Critics have charged that he is out of touch with the average Iranian, and has endangered Iran's nuclear goals by provoking Iran's enemies and behaving irresponsibly.

¶B. Ahmadinejad's political rivals feel empowered after the results of December municipal elections went their way and against the Iranian president's supporters. Iran's politically conservative camp is now divided.

¶C. How Iran's Supreme Leader fits into the current situation is unclear, as rumors abound that he may be seriously ill or dead. Israel believes that the Supreme Leader could compromise on Iran's nuclear program, if he were advised to do so. Israel does not see any serious threat at this time to the stability of the ruling regime in Iran, despite eroding unity among the political elite, and growing unrest among Iran's ethnic and religious minorities.

1D. Iran's Supreme National Security Council and the IRGC are the most important organizations in Iran's decision-making process. The IDF believes that more pressure should be placed on these organizations through targeted sanctions and operations against the IRGC in Iraq.

1E. Financial measures and sanctions under UNSCR 1737 are having an impact in Iran. Iran is moving funds and assets to banks in East Asia and the Gulf states, is shifting its economic activities to other currencies, and recalculating its budget in Euros. Iran is stockpiling food supplies and parts, and there is increased talk about rationing gasoline. Iran is seeking sympathy from the Non-Aligned Movement states, and trying to forge long-term energy-supply contracts with China, Venezuela, Russia and other countries. END SUMMARY.

ASSESSMENT OF CURRENT INTERNAL SITUATION IN IRAN

13. (S) Under Secretary Joseph's discussions on arms control and nonproliferation issues with the Israelis began the evening of January 30 at the King David Hotel (reftel). On January 31, the Under Secretary, Ambassador Jones, Assistant Secretary Rood, Tobey and Timbie met with an interagency team

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at the MFA for three hours to continue talks. The Israeli team included representatives from the MFA, MOD, IDF intelligence (IDI), the Mossad, and the Israeli Embassy in Washington. Efrat Reshev from the MFA's Center for Political Research (the equivalent of State's INR) provided an extensive review of the internal situation in Iran. She said that:

1A. Since January, the most prominent development has been the new wave of criticism aimed at President Ahmadinejad and his government. In the past, criticism focused mainly on his

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economic policies, but has now turned towards his nuclear policy as well. He is accused of being disconnected with reality, and criticized for his travel to Latin America. Criticism of his nuclear policy comes from "pragmatic conservatives", ultra-conservatives, and members of Rafsanjani's circle. It has emerged in newspapers that are connected to the Supreme Leader. Criticism has focused not on the goal of Iran's nuclear program, but on Ahmadinejad's tactics, which -- the critics allege -- are isolating Iran, provoking its enemies, and jeopardizing the goal of the program. People are now asking why Iran has to suffer sanctions under UNSCR 1737. They are saying that irresponsible behavior -- especially Ahmadinejad's obsession with Holocaust denial -- led to the UNSC's action.

1B. Rafsanjani and former rivals of Ahmadinejad (e.g., the mayor of Teheran) were the "big winners" in the December municipality and Assembly of Experts elections. Ultra-right-wing candidates were also rejected, including Ahmadinejad's spiritual advisor. The Iranian president's rivals feel empowered by the elections. In his first popularity contest since his election, he did not fare well. The conservative camp is divided now, and people are saying that Ahmadinejad contributed to this.

1C. It is unclear where Supreme Leader Khamenei fits into the current situation. Newspapers that tend to express his views have run articles critical of Ahmadinejad. It is not clear if the Supreme Leader is acting against Ahmadinejad by allowing criticism to take place. It is also possible that his health condition is declining. The Supreme Leader did not appear in public for the Ashura, and there are rumors that he died or is seriously ill, possibly with cancer. If Khamenei continues as Supreme Leader, it is unlikely that Ahmadinejad will be impeached, even while the Majles pursues

his ministers. Ahmadinejad may become a lame duck president.

The Supreme Leader -- not Ahmadinejad -- is responsible for Iran's nuclear dossier. If Ahmadinejad's fortunes decline, the Supreme Leader may start to listen more to Rafsanjani. The possibility for compromise on Iran's nuclear program still exists. The Supreme Leader compromised on the Paris Agreement. He appears to be willing to go the way his advisors suggest, even if their advice contradicts his own views.

¶D. There is no serious threat to the stability of the ruling regime in Iran, even though there is increased unrest among Iran's ethnic and religious minorities. Among political elites, there is some evidence that unity is dissipating. Rafsanjani and FM Mottaki have said that the U.S. threat to Iran is credible, while Ahmadinejad denies this.

¶4. (S) LTCOL Shai Shevtai from IDF intelligence (IDI), made the following points in his presentation on Iran:

¶A. Ahmadinejad is not a strong decision-maker, but is part of a close circle of persons who make decisions by consensus. The Supreme National Security Council and the Iranian Revolutionary Guards Corps (IRGC) are the most important organizations in the decision-making process. There is no sense that these organizations have changed their views regarding strategy, but they appear to have re-considered tactics. The IRGC breeds the next generation of decision-makers. It is one of the larger economic cooperatives in Iran, and brings money to prominent figures in the regime. Ahmadinejad gave the IRGC engineering projects in Tehran, and they in turn secured votes for him. If IRGC operatives in Iraq, Syria and Lebanon were made to pay, this would have an impact. Until now, they feel unhindered.

¶B. Iranian nuclear negotiator Larijani is directly involved in terrorism. He advises the IRGC and Quds Forces. Rafsanjani is not a moderate, and was present when the decision was made to embark on a nuclear weapons program. The mayor of Teheran is not a moderate, and was involved in discussions on the work program for the Shahab missile. Iran's Supreme Leader is an extremist and, contrary to rumors, is functioning.

¶C. Regarding what can be done: One possibility is to enlarge the circle of decision-makers by somehow "bringing in" economic and social science experts. It is vital to show the Iranian leadership that they will pay a personal price for

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Iran's policies.

¶D. The Iranians are telling their "resistance axis" in the region that there will be "good news" in a few months. Privately, the Iranians are coming to the conclusion that they moved too quickly during the summer, when Hizballah attacked Israel.

¶E. Young Iranians do not feel that they are paying a price for the regime's policies. Iran's nuclear program is of little to no concern for the average Iranian age 18-25. Something needs to be done to show the youth that they will pay the price for the regime's nuclear program and aggressive regional policy. This growing generation is more important in the long-term than Iran's minorities.

¶F. All of Iran's current leaders are in their seventies. Israel is watching the IRGC as it may produce the next leaders in 10-20 years. Israel is also monitoring the religious seminaries in Qom. In Iran, there will not be change without the support of religious figures. Efforts need to be made to find the right people and nurture them. (Reshev added that regime change in Iran is mysterious, as it has only happened once before. She noted that the Iranian constitution leaves open the possibility of a leadership by a

triumvirate.)

¶G. Falling oil prices are restricting Iran's freedom to maneuver, as the budget is based on projected oil incomes that have declined with drops in the price per barrel of oil. Iran has been forced to tap into its oil reserves fund, which is fueling debate. The Iranians have enough reserves to cope, but they have failed to get OPEC to cut oil production.

¶5. (S) Gil Reich from the Israeli Atomic Energy Commission (IAEC) put forward the view that Rafsanjani might be a better alternative to Ahmadinejad, if one accepts that there is no way to stop Iran's nuclear program, and thus proceeds with a view towards slowing it down as much as possible. He explained that Rafsanjani may be willing to negotiate, which would then buy time for the U.S. and Israel as well as for Iran. He noted that the suspension that took place two years ago bought time for all parties. He suggested that if Iran decided to suspend enrichment under verifiable conditions, this would be beneficial for all concerned. Shmuel Limone from the MOD said that Ahmadinejad is the best leader in Iran for Israel, as Rafsanjani would arouse less international condemnation of Iran. Limone said that he had heard in a recent track-two conference he attended that the average Iranian in the streets was feeling the effects of sanctions, mainly because he cannot send money by international money order to his children in the U.S. and abroad.

¶6. (S) In a discussion of sanctions, Yehuda Yaakov from the MFA made the following points:

¶A. Recent discussions with a U.S. team in Vienna have yielded quick progress on fine-tuning targets Israel wants to focus on. There was agreement that a common list of companies and countries involved needs to be drawn up from open source information.

¶B. The MFA is focusing on public diplomacy. In the MFA's view, the best way to succeed vis-a-vis Europe is to stick as close as possible to UNSCR 1737's annex and to expand from there. One disadvantage is that the IRGC is not specified on the list of sanctionable entities.

¶C. The MFA would like to send a team to Washington the second half of February to complete the common list and discuss tactics in the field.

¶7. (S) A Mossad representative made the following points on sanctions:

¶A. Iran is moving its funds to China and other East Asian countries, and the Gulf States. It is shifting from using the U.S. dollar in international economic activities to other currencies, including the Euro. A high percentage of the reserves would be hard to move to the Euro and other currencies. Iran is trying to recalculate its budget in Euros.

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¶B. Iran is stockpiling food items and parts. There is talk about rationing gasoline. Previous attempts to ration gasoline failed.

¶C. There is a long-term process in place to cut dependency on imported gas. If Iran is to be successful in this endeavor, it will have to build refineries. Iran is now negotiating with other countries to construct refineries abroad.

¶D. Iran is trying to gain international support through long-term contracts with countries in Africa, and India and China. It is attempting to persuade foreign governments and companies not to take part in sanctions.

¶E. The results of sanctions on Iran to date have been mixed. UN sanctions are very limited and have virtually no impact.

Sanctions outside the UN have been limited to banks. Sanctions have impacted Iran's trade with Japan and Germany, but Iran has increased its trade with other countries. Investment in Iran's energy sector has decreased and slowed GDP growth rate, but the Chinese have filled the gap, and the Iranians are courting the Russians. The Japanese and Dutch Shell Oil are moving forward in negotiations with Iran on energy supply. The Chinese reportedly have signed onto large scale investment projects in Iran worth millions of dollars, but it is not clear how close they are to concluding contracts.

¶F. The impact of unilateral sanctions on Iran (e.g., outside UNSCR 1737) to date is mixed, but encouraging for Israel. There has been no significant public debate of Iran's nuclear program, but there is increased public awareness of the issue. In economic circles, bankers and traders are very worried about the impact of sanctions, and are appealing to political decision-makers for relief. The leadership continues to project self-assurance. There are indications that some leaders are worried. The pragmatists are critical of Ahmadinejad's tactics, but not his overall strategy.

¶G. There are many agreements between Iran and Venezuela. The two sides have discussed refinery construction in Venezuela, Iran importing refined oil from Venezuela, and Venezuela constructing factories in Iran. There has been some discussion of Iranian-Venezuelan cooperation in OPEC, and possible cooperation on a joint oil embargo if either country feels threatened. (The Mossad representative said he believes the threat of a joint oil embargo is questionable, and wondered if Iran would be able to import refined oil from Venezuela.)

¶8. (S) CAPT Pavel Soifer from the IDI made the following points:

¶A. It is not clear that China will be able to deliver the technology that Iran wants and needs. IDI has seen evidence that there are numerous discussions and MOUs on investments (including on upgrading Iran's refinery sector), but China cannot build all the refineries that Iran will need. In this case, Iran will have to rely on Western firms.

¶B. IDI agrees that Iran is moving money and assets to China and Malaysia. It is also moving money and assets to South Africa.

¶C. IDI is building an economic damage assessment model to measure the impact of sanctions. IDI's current assessment is that the impact of sanctions is mixed. Iranians at the working level are very nervous about the current situation in Iran. They worry about where to put their money. People are appealing to decision-makers, but also express the view that they can cope in spite of the pressure. The decision-makers are not feeling the pressure and will continue with the current nuclear policy. Public debate shows that Iran's economy is vulnerable. Israel and the U.S. should be encouraged by this, but in the IDI's view, the level of pressure is not significant enough to change public confidence in the ruling regime's ability to resolve problems.

¶9. (S) Responding to a question from DOE/NNSA Deputy Administrator Tobey, Soifer said that there is evidence that Iran is trying to forge an oil and gas coalition with Russia, and is trying to establish a new non-aligned movement. Soifer said it is not clear that Iran will be successful in forging such a coalition with Russia, as Russian and Iranian

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strategic interests are very different. He added that gas production cannot be changed as quickly as oil production. He noted that Iran is in the process of concluding 25-year gas supply contracts with countries that will rely on using gas pipelines or liquefied natural gas (LNG). This means that Iran will have to rely on France, the U.S., Japan, and

South Africa for LNG technology.

¶10. (U) Under Secretary Robert Joseph has cleared on this cable.

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